Lynn M. Carlson & Co.

CERTIFIED PUBLIC ACCOUNTANTS

175 SOUTH WEST TEMPLE
SUITE 610
SALT LAKE CITY, UTAH 84101
TELEPHONE (801) 531-1317
FAX (801) 521-9041
TELEX 373-0911 MUL

RECEIVED
AUG 18 1989

DIVISION OF
OIL, GAS & MINING

To the Board of Directors
Utelite Corporation
Coalville, Utah 84017

We have reviewed the accompanying statement of assets and liabilities--income tax basis of Utelite Corporation (an S corporation) as of December 31, 1988, and the related statements of revenues and expenses--income tax basis, and retained earnings--income tax basis for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the owners of Utelite Corporation.

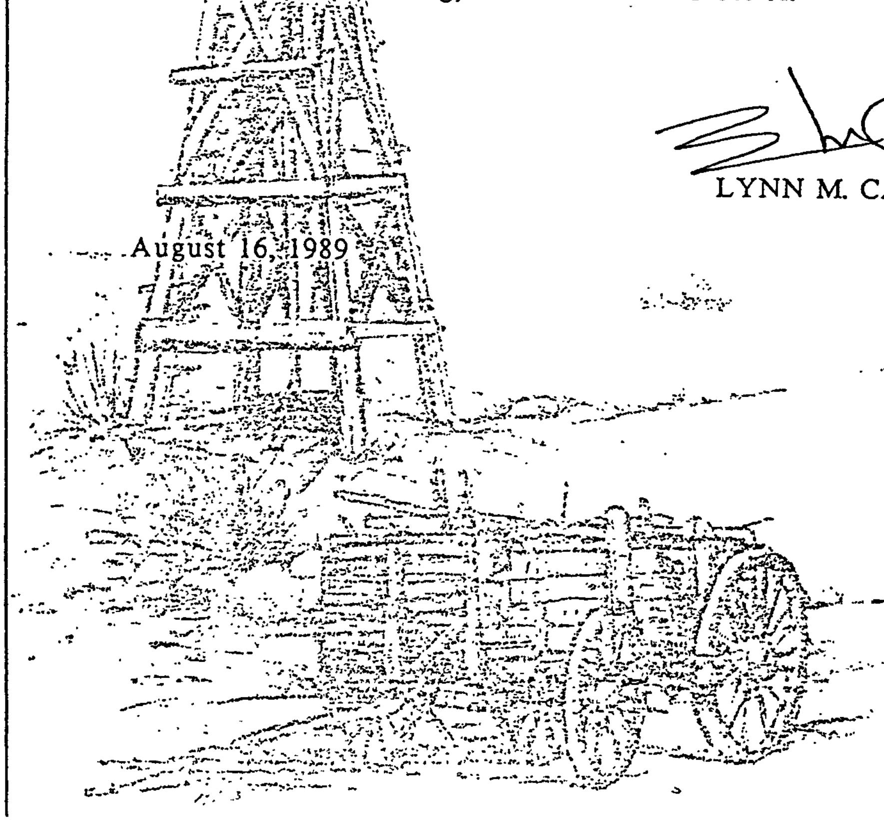
The financial statements have been prepared on the accounting basis used by the Company for federal income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.

A review consists principally of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the income tax basis of accounting, as described in Note A.

LYNN M. CARLSON & CO.

August 16, 1989



UTELITE CORPORATION
STATEMENT OF ASSETS, LIABILITIES & EQUITY—INCOME TAX BASIS
December 31, 1988

ASSETS

CURRENT ASSETS		
Cash		$ 278,293.05
Trade Accounts Receivable		306,792.25
Accounts Receivable-Western Clay Co.		9,660.54
Employee Accounts Receivable		229.93
Material in Process		124,332.51
Notes Receivable--Current		31,123.12
TOTAL CURRENT ASSETS		750,431.40
PROPERTY AND EQUIPMENT		
Land		84,788.48
Buildings		168,503.19
Plant Machinery & Equipment		1,845,927.27
Pollution Control Equipment		178,357.12
Machinery		520,389.86
Autos, Trucks, Trailers		66,953.75
Office Equipment		34,863.04
Less Accumulated Depreciation		(2,296,574.75)
		603,207.96
OTHER ASSETS		
Notes Receivable		49,119.79
Other		13.59
		49,133.38
		$1,402,772.74

See accompanying notes and accountant's report.

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES	
Current Portion of Long-Term Debt	$ 75,000.00
Accounts Payable	1,351.52
Accrued Payroll Taxes Payable	1,377.22
Accrued Interest Payable	335.35
TOTAL CURRENT LIABILITIES	78,064.09
LONG-TERM DEBT, Net of Current Portion	
Notes Payable	5,000.00
	5,000.00
DEFERRED GAIN ON INVOLUNTARY CONVERSION	288,962.30
STOCKHOLDERS' EQUITY	
Common Stock, Par Value $1.00 500,000 Shares Authorized 164,758 Shares Issued of which 55,443 are Held in Treasury	164,758.00
Premium on Capital Stock	56,366.70
Treasury Stock	(55,443.00)
Retained Earnings	865,064.65
	1,030,746.35
	$1,402,772.74

See accompanying notes and accountant's report.

UTELITE CORPORATION

STATEMENT OF REVENUE AND EXPENSES—INCOME TAX BASIS

December 31, 1988

SALES	$2,370,006.98
COST OF SALES	
Inventory Adjustment	326,829.69
Purchases	2,968.08
Direct Labor	393,699.66
Plant Power & Utilities	79,672.80
Kiln Fuel	178,926.81
Delivery Expense	595,364.09
Supplies	15,972.40
Repairs & Maintenance	143,342.09
Fuel & Oil	26,261.40
Raw Material Royalties	15,562.29
Lab & Testing	3,601.65
MSHA	327.00
	1,782,527.96
GROSS PROFIT	587,479.02
EXPENSES	
Marketing & Promotion	97,308.27
Employee Benefits	57,342.31
Payroll Taxes	36,621.19
Travel & Sales	7,160.95
Insurance	8,637.22
Telephone	7,235.23
Legal & Professional	10,927.60
Office Supplies & Postage	9,805.29
Taxes & Licenses	20,188.41
Miscellaneous	795.77
Bad Debts	1,055.25
Dues, Subscriptions	930.75
Training	446.00
Depreciation	223,430.58
Management & Accounting	4,631.22
Air Pollution Control	6,800.00
ESCSI	7,690.27
Depletion	18,119.60
	519,125.91
INCOME FROM OPERATIONS	68,353.11
OTHER INCOME (EXPENSE)	
Interest Income	18,808.39
Gain (Loss) on Sale of Assets	(5,591.61)
Interest Expense	(15,551.48)
	(2,334.70)
NET INCOME	$ 66,018.41

See accompanying notes and accountant's report.

UTELITE CORPORATION
STATEMENT OF RETAINED EARNINGS—INCOME TAX BASIS
December 31, 1988

ACCUMULATED ADJUSTMENTS ACCOUNT	
Balance, January 1, 1988	$ 388,038.97
Taxable Income	66,018.41
Dividends	(88,501.80)
Transfer to Other Retained Earnings of Amount Attributable to Stock Sold	(741.47)
Balance, December 31, 1988	364,814.11
PREVIOUSLY TAXED INCOME	
Balance, January 1, 1988	105,544.38
Dividends in Excess of the Accumulated Adjustments Account	
Transfer to Other Retained Earnings of Amount Attributable to Stock Sold	(83,136.26)
Balance, December 31, 1988	22,408.12
OTHER RETAINED EARNINGS	
Balance, January 1, 1988	375,845.09
Previously Taxed Income Transferred on Sale of Stock by Shareholder	83,877.73
Allowance for % Depletion	18,119.60
Balance, December 31, 1988	477,842.42
TOTAL RETAINED EARNINGS, DECEMBER 31, 1988	$ 865,064.65

See accompanying notes and accountant's report.

UTELITE CORPORATION
STATEMENT OF CASH FLOWS—INCOME TAX BASIS
For the Twelve Months Ended December 31, 1988

CASH FLOWS FROM OPERATING ACTIVITIES	
Net Income	$ 66,018.41
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Depreciation	223,430.58
Depletion	18,119.60
Gain on Sale of Asset	(2,600.00)
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(112,646.78)
Decrease in Inventory	332,349.44
Decrease in Accounts Payable & Accrued Expenses	(38,244.28)
Decrease in Interest Payable	(167.66)
NET CASH PROVIDED BY OPERATING ACTIVITIES	486,259.31
CASH FLOWS FROM INVESTING ACTIVITIES	
Principal Received on Sunbeam Coal Purchase Contract	3,328.34
Principal Received on Loan to Outreach	5,976.93
Payments Received on Shareholder Loans	5,000.00
Loan to Related Corporation	(37,720.10)
Advances to Employees	(229.93)
Land Purchases	(18,581.73)
Capital Expenditures	(116,309.52)
Proceeds from Sale of Assets	10,000.00
Deposit Returned	245.42
NET CASH PROVIDED BY INVESTING ACTIVITIES	(148,290.59)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from Bank Loans	95,000.00
Payments Made on Bank Loans	(75,000.00)
Principal Payment on Land Purchase Contract	(5,000.00)
Payments Made on Shareholders' Loans	(162,049.81)
Dividends Paid	(88,501.80)
NET CASH PROVIDED BY FINANCING ACTIVITIES	(235,551.61)
NET INCREASE IN CASH AND CASH EQUIVALENTS	102,417.11
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	175,875.94
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 278,293.05

See accompanying notes and accountant's report.

NOTES TO THE FINANCIAL STATEMENTS

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income Tax Basis of Accounting

The Company's policy is to prepare its financial statements on the income tax basis of accounting; consequently, the Company recognizes depletion expense as the greater of cost depletion or statutory depletion. Under generally accepted accounting principles, only cost depletion is acceptable.

The financial statements also include a deferred gain on involuntary conversion as a result of a condemnation of land in May, 1986. The Internal Revenue Code allows the Company three years after the close of the first tax year in which the gain is realized to replace the property. Under generally accepted accounting principles, that gain would have been recognized in 1986.

Income Taxes

The Company has elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code. Under those provisions, the Company does not pay federal or state corporate income taxes on its taxable income. Instead, the stockholders are liable for individual federal and state income taxes on their respective shares of the Company's taxable income.

Allowance for Doubtful Accounts

No reserve for bad debts has been established by the Company. Historically, uncollectible accounts receivable have not been significant enough to warrant establishing a reserve. Bad debts are written off as it becomes evident that they are uncollectible; any recoveries are included in income when received.

Inventories

Inventories are valued at the lower of cost or market under the first-in, first-out (FIFO) method. Cost is determined using the Internal Revenue Code's guidelines with respect to uniform capitalization of inventory.

Depreciation

Property, plant and equipment is carried at cost. Depreciation is provided over the estimated useful lives of the related assets using the accelerated cost recovery system and the modified accelerated cost recovery system required by the Internal Revenue Code.

NOTE B—NOTES PAYABLE

The company has a long-term note payable outstanding in the amount of $5,000.00 as a result of a land purchase contract. The note requires a principal payment of $5,000 plus accrued interest on the unpaid principal balance at the rate of eight percent (8%) payable annually. The note will mature July 31, 1990.

NOTE C—RELATED PARTY TRANSACTIONS

Ute-Systems Inc. is a C corporation owned by the same shareholders as the Company in the same ratio of stock ownership. The Company has a note receivable in the amount of $37,720,10 from Ute-Systems Inc. Half of the note receivable, $18,860.05, has been classified as a current asset; the remaining $18,860.05 is long-term. It is anticipated, however, that this note will be liquidated in 1989.

Western Clay Company is wholly owned by two shareholders representing two-thirds of the stock ownership of the Company. There is currently a accounts receivable balance in the amount of $9,660.54 from Western Clay Company.

NOTE D—PROFIT SHARING PLAN

The Company maintains a profit sharing plan for its employees. Contributions to the plan are based on eleven cents ($.11) per yard of product sold in the quarters that the Company is profitable. Profit sharing contributions expensed as an employee benefit in these financial statements are $8,028.82.

NOTE E—MAJOR CUSTOMER

Marley Tile purchases currently comprise approximately 29% of the Company's product sales.

January 8, 1990

TO: Wayne Hedberg

FROM: Steve Schneider Steve

RE: Utelite Request

I have considered your request of December 15, 1989, whereby you desired recommendations which would cause the division to be more comfortable with the acceptance of Utelite's unaudited financial statements for self-bonding. My recomendations are as follows:

1. Since accounts receivable represents a significant percent of Utelite's assets, the receipt of an accounts receivable aging report would assist the division in determining the ongoing strength of Utelite. This report would identify whether the receivables are 30 days old, 60 days old, 90 days old, or 120 days old and greater. This report should be received on a periodic basis, perhaps quarterly.

2. The current asset identified as cash @ 20% also represents a significant percent of Utelite's assets. The receipt of statement copies which support this balance would increase the confidence placed upon the unaudited financial statement. Receipt of statement copies should also be on a periodic basis. quarterly

3. The third significant category of Utelite's assets is property and equipment, and two options should be considered. Since this type of asset is traditionally recorded at original cost on the accounting records, an independent determination of current market value would identify if these assets have a significant value in today's market. The second option concerning property and equipment would be the application of a lien to secure the amount of bonding required. This option is based on the assumption that Utelite's assets are not already pledged, and thus the division would be first in line.

4. An alternative which banks utilize for small companies which could be considered by the division is the personal guarantee of the corporate officers. Owners often resist this alternative, however it may be the final option available in certain situations. Obviously, the financial positions of the corporate officers would need to be obtained before this could be viable.

Please let me know if you have additional questions.